



STATE OF NEW JERSEY
Board of Public Utilities
Two Gateway Center
Newark, NJ 07102
www.bpu.state.nj.us

IN THE MATTER OF THE APPLICATION OF)
FAYSON LAKE WATER COMPANY, A NEW
JERSEY CORPORATION, FOR AUTHORITY
TO EXECUTE A NOTE OR NOTES PAYABLE
IN MORE THAN ONE YEAR FROM THE
DATE THEREOF)

WATER

ORDER OF APPROVAL

DOCKET NO. WF06040321

(SERVICE LIST ATTACHED)

BY THE BOARD:

Fayson Lake Water Company ("Petitioner"), a public utility in the State of New Jersey, serving approximately 850 customers in the Borough of Kinnelon, Morris County, filed a Verified Petition with the New Jersey Board of Public Utilities ("Board") on April 25, 2006, pursuant to N.J.S.A. 48:3-9 and N.J.A.C. 14:1-5.9 requesting authority to issue a Promissory Note to Sussex Bank to evidence a loan in the aggregate principal amount of \$960,000.00. On June 13, 2006 Petitioner filed an Amendment to the Verified Petition dated June 9, 2006.

The Petitioner secured three (3) loan proposals before deciding that the proposal from Sussex Bank is the best proposal for Petitioner's purposes. These proposals were from Sussex Bank, Bergen Commercial Bank, and Co Bank.

The Petition stated that on April 6, 2005 the Board entered an Order of Approval in response to Petitioner's application for permission to borrow \$720,000.00 from the New Jersey Environmental Infrastructure Trust ("NJEIT"), BPU Docket No. WF04121547. The proceeds of this loan were to have been allocated as follows: (a) \$290,000.00 for replacement of existing Well #4 with a new well ("Well #7") and (b) \$430,000.00 for replacement of an existing water storage tank. Management of Petitioner has decided that it is not in Petitioner's best interest to proceed to close this NJEIT loan for the following reasons:

- Since April 6, 2005 additional projects beyond those addressed in the NJEIT loan require attention.

NJEIT would only finance about 1/3 of the Well #7 project.

NJEIT funding requirements would increase the Fayson Lake Main project costs substantially. Petitioner has bid the project and has an acceptable bid at approximately \$450,000 for fixed costs. A bid which would meet only some of NJEIT requirements came in at approximately \$550,000. In order to meet NJEIT requirements, management of Petitioner estimates this higher bid would be at least \$60,000 higher. Thus adding \$160,000 to the project, which is 35% additional over the cost if Petitioner uses private financing.

- The proposed NJEIT contract conditions impose extraordinary costs such as bonding and bond counsel fees which make a NJEIT loan impractical for a small water company like Petitioner. Working with NJEIT would add significant legal and administrative costs and would probably add 1 year to the project time frame.

Petitioner stated in the Verified Petition that purposes for which the proceeds of this \$960,000.00 loan is to be used and the amounts allocated to each purpose are: (a) \$275,000.00 is allocated to direct costs already incurred for the completed project of replacement of existing Well #4 with a new well (Well #7), (b) \$30,000.00 is allocated to consolidation of remaining debt service on a previously completed project involving the completion of the Cliff Trail water storage tank, (c) \$455,000.00 is allocated to Fayson Lake's water main replacement, and (d) \$200,000.00 is allocated to a two year operating line of credit.

Attached to the Verified Petition were a project description, construction bids, and a Construction Permit from the New Jersey Department of Environmental Protection, all relating to Fayson Lake's water main replacement project. Petitioner solicited four construction bids for the Fayson Lake's water main replacement project, and accepted the lowest bid.

The proposed Promissory Note or Notes are in the amount of \$960,000.00. The terms of the loan or loans are as follows:

TERM: The term of the loan shall extend no further than eleven and one half (11½) months from the date of closing. At the conclusion of the term of the Loan, as determined by the Lender, the borrower may exercise its option to convert this loan, as stated below in the permanent term section of this Order, at the sole discretion of the Lender.

Operating Line of Credit: Accrued and unpaid interest shall be payable monthly in arrears on the first day of the first full calendar month following the initial advance of principal, and on the first day of each calendar month thereafter during the term of the Loan, subject to Lender's rights to accelerate payment upon occurrence of a default. The term of the Loan shall terminate within eleven and one half (11½) months of the closing date. At the discretion of the Lender and upon the Lender's satisfaction that all conditions for beginning a permanent term of the Loan have been satisfied, the lender may allow the borrower to exercise its option to convert \$760,000 of this Line of Credit into permanent financing when the line of credit matures.

PERMANENT FINANCING OPTION: The borrower has the option of converting \$760,000 of this \$960,000 line of credit into permanent financing when the line of credit matures. The borrower also has the option of converting \$200,000 of this \$960,000 line of credit into a one year operating line of credit. At no time shall the aggregate amount of both of the financings referred to herein be more than \$960,000.

PERMANENT TERM: If the borrower exercises its option and the bank agrees, the permanent term of the Loan shall extend until a date, which is 240 months from the first day of the first month following 11½ month term of the Line of credit (the "Maturity Date") or (ii) a default under the Loan Documents. (iii) Sale or other conveyance of the project.

PRINCIPAL AND INTEREST: The 11½ month term (Line of credit) of the loan shall bear interest at Wall Street Journal Prime floating rate + .25% floating. At the 11½ month maturity date of the line of credit, if the borrower should exercise its option, and the bank agrees, borrower may convert \$760,000 to permanent financing. The first five years of permanent financing of the Loan shall bear interest at a fixed rate of the five year treasury index plus 240 basis points, rounded to the highest .125%. This will be calculated based upon a twenty year payment schedule. This rate will be calculated thirty days prior to converting from construction to permanent financing based on the total amount of principal drawn from the available \$960,000 during the operating line of credit term of the loan. The interest shall be calculated upon the daily outstanding principal balance thereof based upon a 360-day year for the actual number of days elapsed.

On each of the fifth, tenth and fifteenth year anniversaries during the Term of the Loan, the rate of interest on the outstanding principal balance of the Loan shall be adjusted to a rate consisting of the Five year Treasury index plus 240 basis points, rounded to the highest .125%. The rate for each of said five year periods during the Term of the Loan shall be established by the Lender thirty days in advance of the fifth, tenth and fifteenth year anniversaries during the Term of the Loan.

Monthly payments of principal and interest during the second five year period during the Term of the Loan shall be calculated based upon a fifteen year payment schedule. Monthly payments of principal and interest during the third five year period during the Term of the Loan shall be calculated based upon ten year payment schedule. Monthly payments of principal and interest during the fourth 5 year period during the Term of the Loan shall be calculated based upon a five year payment schedule. Monthly payments of principal and interest shall commence on the first day of the first full calendar month following the conclusion of the construction term of the loan and shall continue on the first day of each calendar month thereafter during the term of the Loan. The entire then-outstanding principal balance of the Loan, and all accrued and unpaid interest thereof, shall be payable in full in one installment on the Maturity Date.

Optional Operating Line of Credit: After the 11½ month operating line of credit matures, should the borrower exercise their option and the bank agree, this portion of the loan will be in the amount of \$200,000. The term of this operating line of credit is one year. The operating line of credit is interest only on the amount drawn down from the operating line. The total amount drawn from this line shall never exceed \$200,000. Interest shall be calculated on the outstanding balance of the \$200,000 credit line. The interest rate is Wall Street Journal Prime floating rate plus .25%. The term shall be two years.

DEFAULT INTEREST RATE: Upon default, whether or not the Lender has accelerated payment of the Loan, the unpaid principal of all advances shall, at the option of the Lender, bear interest at a rate which is four percentage points per annum greater than that which would otherwise be payable.

SECURITY: The Loan is to be secured at all times by (i) a first priority mortgage lien upon the fee simple interest in the project and (ii) a first priority lien and/or security interest on all fixtures and personal property used in the construction, management, maintenance and operation of the project, including, but not limited to, building materials and heating apparatus, air conditioners and equipment, and other property of a similar nature, (iii) a UCC-1 / Financing statement on inventory and accounts receivable.

The Division of the Rate Counsel has reviewed this matter and is not opposed to its approval.

Staff reviewed the information submitted relating to the systems improvements. These improvements are necessary and the associated costs are reasonable. In addition, Staff is of the opinion that the terms of the Promissory Note or Notes appear reasonable considering the size of the utility, its financial condition and the current markets.

The Board, after investigation, having considered the Petition and exhibits submitted in this proceeding, FINDS that the proposed transaction is in accordance with law, is not contrary to the public interest, and approving the purposes thereof, HEREBY ORDERS that Petitioner be and is HEREBY AUTHORIZED to issue a Promissory Note or Notes to the Sussex Bank in an aggregate principal amount of up to \$960,000 as hereinabove described.


This Order is issued subject to the following provisions:

1. The Board's approval is expressly limited to the Mortgage Note described herein and as more fully described in the Petition and supporting documents.
2. In future Petitions for approval of private financings, the Company will provide supporting documentation showing why lower-cost NJEIT financing is not an option.
3. This Order shall not be construed as directly or indirectly fixing, for any purposes whatsoever, any value of any tangible or intangible assets now owned or hereafter to be owned by the Company.
4. This Order shall not be construed as certification that the Mortgage Note proposed to be issued hereunder will be represented by tangible or intangible assets of commensurate value or investment cost.
5. This Order shall not affect nor in any way limit the exercise of the authority of the Board, or of the State of New Jersey, in any future petition or in any proceedings with respect to rates, franchises, services, financing (including the method of sale of securities), accounting, capitalization, depreciation, or in any other matters affecting the Company.

6. This Order is for the sole purpose of approving the financing and does not approve or indicate approval of the project or projects as herein described, for ratemaking purposes.
7. The authority granted in this Order shall become effective only upon compliance with all of the stated provisions and shall become null and void and of no effect with respect to any portion thereof that is not exercised by January 1, 2007.
8. The Company shall submit a copy of the Mortgage Note issued by the Lender and all other material documents executed or to be executed.

DATED: 9/29/06


BOARD OF PUBLIC UTILITIES
BY:


JEANNE M. FOX
PRESIDENT


FREDERICK F. BUTLER
COMMISSIONER


CONNIE O. HUGHES
COMMISSIONER

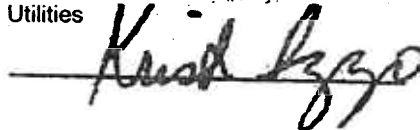

JOSEPH L. FIORDALISO
COMMISSIONER


CHRISTINE V. BATOR
COMMISSIONER

ATTEST:


KRISTI IZZO
SECRETARY

I HEREBY CERTIFY that the within
document is a true copy of the original
in the files of the Board of Public
Utilities



SERVICE LIST

In the Matter of the Application of Fayson Lake Water Company, a New Jersey Corporation, for Authority to Execute a Note or Notes Payable in More than One Year from the Date Thereof

Docket No. WF06040321

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